

Message Text

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TAGS:ESCAP

SUBJECT: ESCAP: DRAFT ARTICLE OF AGREEMENT ESTABLISHING
THE COOPERATIVE EXPORT CREDIT INSURANCE ASSOCIATION FOR
ASIA AND THE PACIFIC

1. USG HAS REVIEWED SUBJECT DOCUMENT AND HAS SEVERAL COM-
MENTS AND SUGGESTIONS. THESE COMMENTS SHOULD IN NO WAY
BE CONSTRUED AS SUPPORT FOR THE ASSOCIATION.

2. THE USG HAS MADE AND IS CONTINUING TO MAKE A MAJOR
EFFORT TO MINIMIZE COMPETITION IN GOVERNMENT SUPPORTED
EXPORT FINANCING AND TO REDUCE THE ELEMENT OF SUBSIDY
INVOLVED IN OFFICIAL EXPORT CREDIT FINANCING. FYI: PRE-
SENT LEGISLATION REQUIRES THIS AND AN AMENDMENT (WHICH EN-
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JOYS CONSIDERABLE SUPPORT IN CONGRESS) TO THE EXPORT-IM-
PORT BANK REAUTHORIZATION LEGISLATION NOW PENDING BEFORE
CONGRESS WOULD REQUIRE US TO INTENSIFY THIS EFFORT. END
FYI. SOME 22 DEVELOPED COUNTRY GOVERNMENTS HAVE AGREED
TO THE INTERNATIONAL ARRANGEMENT ON OFFICIALLY SUPPORTED
EXPORT CREDITS WHICH ESTABLISHES CERTAIN GUIDELINES REGARD-
ING, AMONG OTHERS, MINIMUM INTEREST RATES, MAXIMUM REPAY-

MENT TERMS, AND MINIMUM CASH PAYMENTS.

3. UNDER THESE CIRCUMSTANCES WE MUST TAKE A VERY HARD LINE

AGAINST ANY NEW PROPOSAL WHICH WOULD PROVIDE FOR THE SUBSIDIZATION OF EXPORT CREDITS, GUARANTEES, OR INSURANCE. SUCH A PROPOSAL WOULD UNDERMINE THE PROGRESS ALREADY MADE, AND THE PROSPECTS FOR FURTHER PROGRESS, BY CONFRONTING THE PARTICIPANTS IN THE ARRANGEMENT WITH SUBSIDIZED OFFICIAL EXPORT CREDIT SUPPORT BY OTHER COUNTRIES -- COMPETITION THEY WOULD FEEL COMPELLED TO MATCH. THIS CYCLE WOULD PROGRESSIVELY ERODE THE EFFECTIVENESS OF THE PRESENT "ARRANGEMENT" ON EXPORT CREDITS AND HEIGHTEN PROTECTIONIST PRESSURES IN THIS AND OTHER COUNTRIES. IN THIS SITUATION, SINCE PARTICIPANT COUNTRIES WOULD, IN ALL LIKELIHOOD MATCH THESE SUBSIDIES, THE RESULT WOULD ONLY BE A COSTLY COMPETITION BETWEEN NATIONAL TREASURIES, WITH NO NET GAIN TO DEVELOPING COUNTRIES, BUT A BUILDUP OF ILL FEELING. TO EXPAND EXPORTS, THE LDCS OF THE ESCAP REGION SHOULD CONCENTRATE ON IMPROVING THE PRICE AND QUALITY OF THEIR EXPORTS RATHER THAN ON SUBSIDIZED EXPORT CREDITS.

4. THUS, WE BELIEVE THE FOLLOWING POINTS SHOULD BE MADE IN DISCUSSION OF THE DRAFT AGREEMENT, AND SHOULD BE INCORPORATED IN THE REVISED DRAFT:

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A. (COVER LETTER, PAGE 1) HAS THE ASSERTION THAT LDCS MUST OFFER EXPORT CREDITS ON TERMS THE SAME OR BETTER THAN THOSE EXTENDED BY TRADITIONAL SUPPLIERS BEEN ADEQUATELY SUBSTANTIATED? FOR THE NEAR FUTURE AT LEAST, LDC EXPORTS GENERALLY ARE NOT ADVERSELY AFFECTED BY THE ABSENCE OF AN AGREEMENT ALONG THE LINES PROPOSED.

B. (COVER LETTER, PAGE 1) NOTING IN THE LETTER THAT MANY LDCS CANNOT AFFORD TO SUBSIDIZE AN EXPORT CREDIT INSURANCE SCHEME IMPLIES THAT SUCH SUBSIDIZATION IS DESIRABLE OR, AT LEAST, PERMISSIBLE. WE STRONGLY DISAGREE AND COULD NOT SUPPORT ANY SCHEME WHICH INVOLVES OFFICIAL SUBSIDIZATION. ANY EXPORT CREDIT INSURANCE SCHEME SHOULD BE FULLY SELF-SUSTAINING. PREMIUMS MUST BE SET AT A LEVEL ADEQUATE TO COVER LOSSES AND ADMINISTRATIVE EXPENSES. ESTABLISHMENT OF A REGIONAL SCHEME WHICH DOES NOT ENTAIL SUBSIDIZATION OFFERS A BASIS ON WHICH TO ENSURE THE SOLVENCY AND SELF-SUSTAINING NATURE OF THE SCHEME THROUGH BROADER RISK-SHARING.

C. (PREAMBLE, SECOND PARAGRAPH, PAGE 1) COMMENT A APPLIES.

D. (PREAMBLE, FIFTH PARAGRAPH, PAGE 2) COMMENT B APPLIES.
THE FINAL LINE OF THE PARAGRAPH SHOULD BE REWRITTEN ALONG
THE FOLLOWING LINES: "...A SCHEME WOULD NOT ONLY CONSTI-
TUTE A HEAVY BURDEN ON THE GOVERNMENT BUDGET BUT ALSO IN-

TRODUCE AN UNDESIRABLE GOVERNMENT SUBSIDY INTO THE AREA
OF TRADE FINANCE, RISKING AN EXPORT CREDIT WAR AND SELF-
DEFEATING EXPORT CREDIT COMPETITION AMONG EXPORTING COUN-
TRIES WHICH WOULD BENEFIT NO ONE."

E. ARTICLE 2 (H), PAGE 5: REWRITE FINAL TWO LINES AS
FOLLOWS: "... CREDIT INSURANCE SCHEMES IN THE ESCAP REGION
WITH A VIEW TO REDUCING GOVERNMENT SUBSIDIZED EXPORT FINAN-
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CING AND MINIMIZING COMPETITION IN GOVERNMENT SUPPORTED
EXPORT FINANCING, THUS REDUCING THE RISK OF AN EXPORT CRE-
DIT RACE IN THE ESCAP REGION AND ELSEWHERE;"

F. ARTICLE 5, SECTION 4, PAGE 9: THE USG OPPOSES THE IS-
SUANCE OF EXCHANGE RISK INSURANCE BY THE PROPOSED ASSOCIA-
TION. SECTION 4 SHOULD BE DELETED.

G. ARTICLE 6, SECTION 1, PAGE 9: THE RISK SHARING PRINCI-
PLE IS IMPORTANT TO ENSURE THE CREDITWORTHINESS OF THE
IMPORTER AND/OR BORROWER. WE FULLY SUPPORT THE ASSOCIA-
TIONS' FOLLOWING THIS PRINCIPLE. HOWEVER, IN THE FINAL
LINE OF THIS SECTION, THE WORD "SMALL" SHOULD BE DELETED
AND REPLACED WITH "SIGNIFICANT" OR "APPROPRIATE". THE PUR-
POSE OF THE CHANGE IS TO CLARIFY THAT THE EXPORTER'S SHARE
OF THE RISK IS SUFFICIENT TO ENSURE DILIGENCE ON HIS PART
IN ASCERTAINING THE CREDITWORTHINESS OF THE IMPORTER AND/OR
BORROWER.

H. ARTICLE 6, SECTION 3, PAGE 9: THE MEANING OF THE SEC-
TION IS UNCLEAR. WE WOULD NOT OPPOSE THE EXPORTER'S TRANS-
FERRING HIS PORTION OF THE RISK TO A FINANCIAL INSTITUTION
OTHER THAN THE ASSOCIATION. HOWEVER, WE WOULD OPPOSE THE
ASSOCIATION'S ASSUMING THE ENTIRE RISK, FOR THE REASON
GIVEN UNDER ITEM G.

I. ARTICLE 8, PAGE 10: WE SUPPORT THIS APPROACH TO THE
SETTING OF PREMIUMS. HOWEVER, THE APPROACH SHOULD BE
CLARIFIED BY ADDING THE FOLLOWING LANGUAGE AT THE END OF
THE SECTION: "...BE COVERED, AND WITH THE OBJECTIVE OF EN-
SURING THE ASSOCIATION'S SOLVENCY AND ABILITY TO OPERATE
ON A SELF-SUSTAINING BASIS."

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J. ARTICLE 24, SECTION 1, PAGE 18: THE WORDING OF THE FIRST EXPLANATION OF THE LIMIT OF LIABILITY SHOULD BE CLARIFIED TO MAKE IT CONSISTENT WITH THE SECOND EXPLANATION. FOR INSTANCE, THE LANGUAGE ON THE SECOND AND THIRD LINES COULD READ "...SHALL NOT EXCEED THE SUM OF A) FIFTEEN TIMES THE AMOUNT OF THE INSURANCE FUND AND B) RESERVES..."

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K. ARTICLE 31, SECTION 3 (H), PAGE 21: FOR THE REASON GIVEN UNDER ITEM F, THE WORDS "EXCHANGE RISKS OR" SHOULD BE DELETED FROM THE FIRST LINE. VANCE

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